

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 L-03 H-02 PA-02 DOE-15 SOE-02 AGRE-00
/127 W

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R 042354Z APR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 6908
INFO AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

UNCLAS SECTION 01 OF 02 OTTAWA 01672

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA

1. SUMMARY. IN RESPONSE TO INCREASINGLY STRONG DOWNWARD
PRESSURE WHICH DROVE CANADIAN DOLLAR BELOW 88 U.S. CENTS,
GOC HAS AUGMENTED STANDBY CREDIT BY U.S.DOLS 1 BILLION TO
U.S.DOLS 2.5 BILLION AND INCREASED DISCOUNT RATE BY ANOTHER
0.5 PERCENT TO 8.5 PERCENT (SEE SEPTTEL). MERCHANDISE TRADE
SURPLUS DECLINED SLIGHTLY TO CDOLS 245 MILLION IN FEBRUARY
FROM JANUARY SURPLUS OF CDOLS 268 MILLION; EXPORTS AND
IMPORTS ROSE SHARPLY. FURTHER DELAYS LIKELY IN LEGISLATION
AMENDING BANK ACT. SOME OBSERVERS SEE PICKUP IN FOREIGN
BORROWING LATER IN YEAR FROM CURRENT LOW LEVELS. SHORT TERM
INTEREST RATES ROSE IN WEEK REFLECTING ERRATIC MOVEMENTS IN
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CANADIAN DOLLAR EXCHANGE RATE. END SUMMARY.

2. FOREIGN EXCHANGE MARKET. CANADIAN DOLLAR EXCHANGE RATE
FLUCTUATED WIDELY LAST WEEK. WEEK STARTED WITH STRONG
SELLING PRESSURE (MET BY HEAVY OFFICIAL INTERVENTION. SEE
OTTAWA 1616) PUSHING DOLLAR DOWN TO 88.14 U.S. CENTS ON
MONDAY FROM PREVIOUS WEEK'S CLOSE OF 88.81. DOLLAR STRENG-

THENED TO 88.38 U.S. CENTS TUESDAY AND DRIFTED DOWNWARD FOR MOST OF WEEK, REACHING 88.25 U.S. CENTS AT THURSDAY'S CLOSE. ANNOUNCEMENT OF RECORD U.S. TRADE DEFICIT FOR FEBRUARY PUSHED EXCHANGE RATE AS HIGH AS 88.38 U.S. CENTS AGAIN EARLY ON FRIDAY, BUT SUBSEQUENT ANNOUNCEMENT OF SMALLER THAN EXPECTED CANADIAN FEBRUARY TRADE SURPLUS ABRUPTLY ENDED RISE, AND DOLLAR PLUMMETED TO 88.09 U.S. CENTS. PROFIT TAKING AND EXPECTATIONS THAT BANK OF CANADA (BOC) WOULD AGAIN INCREASE DISCOUNT RATE CAUSED DOLLAR TO RALLY TO 88.19 U.S. CENTS AT FRIDAY'S CLOSE, MARCH 31. WHEN EXPECTED ANNOUNCEMENT OF INCREASE IN DISCOUNT RATE WAS NOT REALIZED ON MONDAY, APRIL 3, DOWNWARD PRESSURE ON DOLLAR INTENSIFIED; EXCHANGE RATE FELL TO 87.89 AND CLOSED AT 87.96 U.S. CENTS. IN RESPONSE, GOC AUGMENTED STANDBY CREDIT (ARRANGED THROUGH CHARTERED BANKS LAST FALL) FROM U.S.DOLS 1.5 BILLION TO U.S.DOLS 2.5 BILLION, AND BOC INCREASED DISCOUNT RATE FROM 8 PERCENT TO 8.5 PERCENT (SEE SEPTEL).

3. MERCHANDISE TRADE BALANCE. MERCHANDISE TRADE SURPLUS (SA) ON BALANCE OF PAYMENTS BASIS, DECLINED SLIGHTLY TO CDOLS 245 MILLION IN FEBRUARY FROM CDOLS 268 MILLION (REVISED) JANUARY SURPLUS. EXPORTS ROSE BY 23 PERCENT TO CDOLS 4.37 BILLION FROM JANUARY LEVEL WHILE IMPORTS WERE UP 25.5 PERCENT TO CDOLS 4.12 BILLION. SHARP RISE IN IMPORTS AND EXPORTS FOLLOWS DECLINES REGISTERED BETWEEN UNCLASSIFIED

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DECEMBER AND JANUARY.

4. IN THREE MONTHS ENDING FEBRUARY, EXPORTS INCREASED 9 PERCENT TO CDOLS 12.16 BILLION AND IMPORTS ROSE BY 8.5 PERCENT TO CDOLS 11.21 BILLION. TRADE SURPLUS IN THIS PERIOD WAS CDOLS 948 MILLION COMPARED WITH SURPLUS OF CDOLS 803 MILLION IN QUARTER ENDING NOVEMBER.

5. BANKING LEGISLATION. LEGISLATION PROCLAIMED TO EXTEND EXPIRATION DATE OF EXISTING BANK ACT FROM MARCH 31, 1978 TO APRIL 1, 1979. FINANCE MINISTER CHRETIEN HAD PREVIOUSLY INDICATED THAT GOC WOULD TABLE REVISED BANK ACT IN PARLIAMENT DURING MARCH. IT NOW SEEMS NEARLY CERTAIN THAT GOC WILL DELAY INTRODUCTION OF REVISED LEGISLATION UNTIL AFTER FEDERAL ELECTIONS, MAKING ITS PASSAGE BY PARLIAMENT UNLIKELY BEFORE END OF YEAR. MEANWHILE, ESTABLISHMENT OF FINANCIAL SUBSIDIARIES IN CANADA BY FOREIGN BANKS IS PROCEEDING RAPIDLY. BANK OF CANADA ESTIMATES THAT TOTAL ASSETS OF SUCH SUBSIDIARIES WAS CDOLS 3.3 BILLION AT END OF DECEMBER, 1977, A 38 PERCENT INCREASE OVER DECEMBER, 1976.

6. PUBLIC AND PRIVATE BORROWING. ACCORDING TO FIGURES

COMPILED BY WOOD GUNDY LIMITED, TOTAL MEDIUM AND LONG TERM BORROWING (PUBLIC AND PRIVATE, FOREIGN AND DOMESTIC) WAS CDOLS 352 MILLION IN FEBRUARY, DOWN CONSIDERABLY FROM JANUARY LEVEL OF CDOLS 2.63 BILLION. BORROWING IN FOREIGN CURRENCIES IN FEBRUARY WAS ONLY DOLS 31 MILLION. FOREIGN BORROWING REPRESENTED 42 PERCENT OF CUMULATIVE TOTAL IN JANUARY AND FEBRUARY 1978.

7. SASKATCHEWAN PLANS TO FLOAT USDOLS 125 MILLION ISSUE OF 30 YEAR BONDS IN U.S. MARKET ON APRIL 11. ANALYSTS EXPECT THAT PROVINCE WILL HAVE TO OFFER A YIELD OF ABOUT 9.05 PERCENT, WHEREAS 9.7 PERCENT YIELD WOULD BE REQUIRED IN CANADIAN DOMESTIC MARKET. SOME OBSERVERS EXPECT PACE OF FOREIGN BORROWING TO PICK UP LATER THIS YEAR, IN PART
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BECAUSE OF EXPECTED GOC ENCOURAGEMENT OF BORROWING ABROAD BY CROWN CORPORATIONS.

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8. ERRATIC EXCHANGE RATE MOVEMENTS CONTRIBUTED TO RISE
IN SHORT TERM INTEREST RATES. RATE ON THREE MONTH TREAS-
URY BILLS WAS 7.73 PERCENT IN WEEK, COMPARED WITH 7.68
PERCENT PREVIOUS WEEK. BOND PRICES DROPPED ONE-HALF POINT.
DUEMLING

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